

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Nakano Analyst: Jeani Brent Bill Number: AB 465

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: 06/28/1999

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Research Expenses Credit/Increase Alternative Incremental Credit to 90% of the Federal Formula

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 16, 1999, AND AS AMENDED April 12, 1999, and June 14, 1999, STILL APPLY.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would increase the state alternative incremental research expenses credit to 90% of the federal credit amount, instead of the existing 80%.

SUMMARY OF AMENDMENT

The June 28, 1999, amendments changed the provisions that would have fully conformed to the federal alternative incremental credit amounts by including modifications that would increase the current state alternative credit to 90% of the federal formula, instead of the existing 80%.

Except for the items discussed in this analysis, the department's analyses of the bill as introduced February 16, 1999, and as amended April 12, 1999, and June 14, 1999, still apply. The Board position and new Revenue Estimate are included below.

TAX REVENUE ESTIMATE

Revenue losses under the PITL and B&CTL are estimated to be as follows:

Effective Tax Years After December 31, 1998 Assumed Enactment After June 30, 1999 (in millions)*			
1999-0	2000-1	2001-2	2002-3
-\$4	-\$7	-\$8	-\$9

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Board Position:

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Legislative Director Date

Johnnie Lou Rosas 07/07/1999

REVENUE ESTIMATE DISCUSSION

The above revenue impact was estimated as follows. First, the revenue loss from the alternative incremental credit under the existing B&CTL was estimated for 1994 using the department's bank and corporate tax samples as well as other corporate financial data. Next, the revenue loss from the alternative incremental credit under the proposed higher credit rates was estimated. The difference is the B&CTL revenue impact of this bill based on 1994 data. Future revenue losses were extrapolated using reported research expenses credit claimed by California corporations from 1994 to 1997, and Department of Finance projected annual growth rates of corporate profits. Finally, the revenue impact under the PITL was assumed to be equal to 3% of the B&CTL impact and was added to the corporate impact.

BOARD POSITION

Pending.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a "neutral" position on this bill as introduced February 16, 1999, which would have increased the alternative incremental credit to 100% of the federal formula. However, the Board has not yet reviewed the modifications which would increase the credit to 90% of the federal formula.